

Durham Research Online

Deposited in DRO:

26 March 2013

Version of attached file:

Published Version

Peer-review status of attached file:

Peer-reviewed

Citation for published item:

Williamson, P. (1984) 'Financiers, the gold standard, and British politics 1925-1931.', in Businessmen and politics : studies of business activity in British politics, 1900-1945. London: Heinemann, pp. 105-129.

Further information on publisher's website:

<http://www.pearsoned.co.uk/>

Publisher's copyright statement:

Deposited with the kind permission of the publisher Heinemann/Pearson Education.

Additional information:

Use policy

The full-text may be used and/or reproduced, and given to third parties in any format or medium, without prior permission or charge, for personal research or study, educational, or not-for-profit purposes provided that:

- a full bibliographic reference is made to the original source
- a [link](#) is made to the metadata record in DRO
- the full-text is not changed in any way

The full-text must not be sold in any format or medium without the formal permission of the copyright holders.

Please consult the [full DRO policy](#) for further details.

Businessmen and Politics

Studies of business activity in British
politics, 1900–1945

Edited by John Turner



Heinemann · London and Exeter (NH)

Heinemann Educational Books Ltd
22 Bedford Square, London WC1B 3HH
LONDON EDINBURGH MELBOURNE AUCKLAND
HONG KONG SINGAPORE KUALA LUMPUR NEW DELHI
IBADAN NAIROBI JOHANNESBURG
EXETER (NH) KINGSTON PORT OF SPAIN

© Selection and editorial matter, John Turner 1984
In each chapter, the author cited on the contents page, 1984

First published 1984

British Library Cataloguing in Publication Data

Businessmen and politics

1. Businessmen—Great Britain—Political
activity 2. Great Britain—Politics and
government—20th century.

I. Turner, John

322'.3'0941 HF499

ISBN 0-435-32870-0

Typeset by Inforum Ltd, Portsmouth
Printed in Great Britain by Biddles Ltd, Guildford, Surrey

Contents

Preface and Acknowledgements	vii
1. The Politics of Business <i>John Turner, Bedford College, London</i>	1
2. Businessmen, Politics, and Municipal Socialism <i>Richard Roberts, University of Sussex</i>	20
3. The Politics of 'Organised Business' in the First World War <i>John Turner</i>	33
4. Tariffs and Steel, 1916-1934: the Politics of Industrial Decline <i>Steven Tolliday, King's College, Cambridge</i>	50
5. The Politics of Producers' Co-operation: The FBI-TUC-NCEO Talks, 1929-1933 <i>Michael Dintenfuss, Columbia University</i>	76
6. The Administrative Origins of Industrial Diplomacy: an Aspect of Government-Industry Relations, 1929-1935 <i>Richard Roberts, St Catherine's College, Oxford</i>	93
7. Financiers, the Gold Standard and British Politics, 1925-1931 <i>Philip Williamson</i>	105
8. Arms, Government and Businessmen, 1935-1945 <i>George Peden, University of Bristol</i>	130
9. The 'Old Aunts': Governments, Politicians and the Oil Business <i>Geoffrey Jones, London School of Economics</i>	146
Notes	163
Index	196

Between the wars, and indeed at any time, the relationship between government and industry is an immensely complex issue. The conclusions of this essay can therefore only be tentative, and must be confined to a single aspect of government–industry relations. Nevertheless, most communication between government and business was handled by civil servants, and the methods employed, and assumptions made, by civil servants are therefore an essential concern of economic and political historians. This essay has suggested that, during a period when the relationship between industry and government was rapidly changing, a particular form of relationship emerged as a consequence of strongly held opinions within the civil service. Officials did not wish entirely to prevent change in the relationship between government and industry; but the method to which their assumptions about the proper role of government led them did limit the extent to which change could take place. Protection of the proper role of Parliament, and the constant avoidance of *overt* official manipulation of industrial decisions, ensured that no comprehensive industrial policy emerged in the 1930s. Instead the period saw a series of unco-ordinated and *ad hoc* policies to help individual industries such as coal, cotton and shipping. Officials in the 1930s were often criticised by contemporary businessmen for being inefficient. Some politicians, especially Mosley, saw them as reactionary. Historians may take the more balanced, and as it happens more charitable, view that the underlying philosophy of government action was in turmoil between the wars, and that officials were afflicted by a sincere and conscientious doubt about their own proper role; within the guidelines they set themselves they achieved much, but not enough either to escape criticism or do more than touch the surface of the problems of British industry in the 1930s.

7 Financiers, The Gold Standard and British Politics, 1925–1931

Philip Williamson

Interest in the inter-war British gold standard has naturally concentrated on its monetary and broader economic aspects. Studies by Clay, Sayers, Clarke, Moggridge and Howson have provided excellent accounts of the economic discussions that preceded the return to the gold standard in 1925, of the difficulties encountered by the Bank of England in maintaining it, of its repercussions upon British trade, industry and employment, and of the Bank's ultimately unsuccessful attempts to defend it during the 1931 crisis.¹ Yet the return to the gold standard also had important political implications, which have been noted or discussed in passing but not systematically examined.²

Being on the gold standard meant that monetary policy was technically 'outside politics', under the control not of the government but of a private, self-appointed company, the Bank of England. With the outbreak of war in 1914, however, the Government was called upon by the Bank of England to help deal with the consequences of a European liquidity crisis. As a result, the Treasury began issuing its own currency notes, and as the war progressed and the country's financial position deteriorated, the gold standard was in practice set aside and the Treasury increasingly became involved in other parts of the Bank's traditional functions, particularly exchange control and debt management. With the formal suspension of the gold standard in April 1919, the Treasury became the predominant monetary authority. This suspension was, however, forced upon the government; official committees had already, in 1918, advised that an effective gold standard should be restored, and from 1919 this became the policy of successive governments. Decontrol was as much an official objective in monetary affairs as it was in industrial policy, and received still less discussion, even during the parliamentary debates on the return to gold in 1925. Politicians of all parties accepted the gold standard on conventional economic grounds – a belief that British prosperity was dependent upon re-establishing the country's position within the international economy. Churchill, the Conservative Chancellor of the Exchequer responsible for the ultimate decision to resume gold payments, required rather more convincing than most; but Snowden, the Labour party's financial spokesman, publicly supported the gold standard in

principle, and had to be pressed by a party committee to criticise even the timing of the decision³ – an objection so mild that it was indistinguishable from that of some City advocates of the gold standard. The question of political control barely arose; even of those very few MPs who opposed the decision outright, only two members of the Independent Labour Party complained about credit policy being in the hands of private bankers.⁴ The effect of the return to gold, indeed, was that the Treasury officials and their political superiors had only limited influence over a vital determinant of domestic economic performance; that ministers rarely, if ever, needed to think about currency and exchange questions, and that consequently when the Bank of England asked again for government assistance, in 1931, some were intimidated and disadvantaged by inadequate knowledge.⁵ This position is notoriously expressed in the reported statement of a former Labour cabinet minister when the gold standard was suspended in September 1931: 'they never told us we could do that'.⁶ The first part of what follows examines banking and Treasury thinking about the gold standard and the relationship between monetary policy and politics, in order to explain how such a situation developed.

It has been argued that the Bank of England represented the 'extremely narrow section of overseas finance' rather than City financial interests generally, and further that the gold standard policy was promoted essentially for the advantage of that particular section rather than out of concern for industry and trade.⁷ Obviously there were differences between the specific interests of merchant bankers, discount houses, clearing banks, finance companies and insurance firms, but there was in fact no significant difference between these groups over the gold standard, either in 1925 or 1931. Moreover, City financiers regarded the gold standard as establishing the essential framework for a sound and permanent revival of trade and industry. They did not forget that ultimately the City's prosperity was dependent upon Britain's industrial strength, and whatever the earlier differences between financiers and industrialists over the advisability of returning to gold, with the onset of deep depression from 1929 most of them came to adopt similar positions on the issues of Empire trade, import restrictions, taxation and economy.

Much has been written in general about the political role of the City between the wars, but apart from Moggridge's examination of the return to gold, little attempt has been made to substantiate these claims by detailed studies. The second part of this essay suggests how such a study might proceed on the gold standard period itself, and particularly on its final two years – when the division between 'banking' and 'politics' was gradually broken down.

In April 1925 Layton, editor of *The Economist*, wrote that he had

been 'amazed at the doubts and hesitations which have been current in the City of London for the last three months about the gold standard'.⁸ These misgivings were evident in the annual speeches of the chairmen of the clearing banks in January, and were even expressed privately within the Bank of England. The uncertainty was essentially about timing: it was feared that a premature return to parity, before rising American prices had reached British levels, would involve a risk of being forced back off the gold standard, and might require such a high bank rate as protection for the gold reserves that industry would be hampered. However, of the leading City bankers only McKenna, chairman of the Midland Bank, took dislike of the possibility of deflation to the point of joining Keynes in opposing any return to the gold standard – though not in public.⁹ All other leading financiers regarded an eventual return to gold at the pre-war parity as essential, and even McKenna ultimately admitted that for psychological and political reasons an early return was inescapable.¹⁰ And once gold parity had been restored in late April, it was universally accepted in the City that abandonment would destroy British credit, and therefore could not be contemplated.

Treasury officials were as committed as City bankers to the gold standard, because it was believed to be of great benefit to the country as a whole, and not merely a means of strengthening London's financial interests. A fixed currency and stable exchanges were considered essential conditions for a permanent revival of trade, industry and employment; and the City's invisible earnings helped to pay for imports, produced a balance of payments surplus, and so generated capital for the foreign investment which stimulated demand for British exports. The interests of finance, trade and industry were therefore regarded as interdependent, and if merchants and manufacturers were less enthusiastic than bankers about the return to gold, it was thought that this was simply because they tended to take a shorter view.¹¹ Moreover, the gold standard was also considered to be of general benefit because it served as a 'thermometer measuring the economic activity of a country';¹² it provided a warning against trade imbalances, and even more importantly, acted as a check against an undue expansion of credit. The 'spectre of inflation' haunted bankers and Treasury officials, especially after the financial and economic excesses which had followed the suspension of gold payments in 1919, and after the continental hyperinflations of the early 1920s had left 'debris scattered all over Europe'. It was believed that unless inflation were checked, it would inexorably dislocate all economic relationships, provoke industrial unrest, and lead to political disorder. So great was this fear of inflation and its insidious ways that any alternative to having the currency tied to gold was regarded as impracticable and dangerous;

behind every exponent of a 'managed currency' there was thought to lurk an inflationist.¹³ However, the greatest threat to currency stability was considered to come not from such economist and banking critics as Keynes and McKenna, but rather from the politicians. Owing to the political temptations of financial and monetary manipulation, politicians of all parties had to be regarded as potentially suspect. Conservative and Liberal ministers in the Coalition government had been responsible for the inflationary developments of 1919, and during the 1920s there seemed to be a particular threat from some sections of the Labour party. For bankers and Treasury officials, therefore, by no means the least advantage of the return to the gold standard was that it was believed to take monetary policy out of politics.

Great emphasis was laid upon the theory that under the gold standard adjustments were 'automatic'. According to Bradbury – a member of all the post-war committees that recommended a return to the gold standard – this meant that it was 'knave-proof. It could not be rigged for political or even more unworthy reasons.'¹⁴ Moreover, it was also regarded as an important reinforcement for that other check upon political manipulation of the financial system, the 'balanced budget convention'.¹⁵ Even McKenna stressed this point: 'the fear of being forced off the gold standard acts as a salutary check on the extravagance of Governments'.¹⁶ However, insistence upon the automatic operation of the gold standard alone was not considered sufficient; in order to guarantee that its rules were properly applied, it was thought necessary that authority in monetary policy should rest exclusively with the Bank of England, as this was conventionally regarded as a non-political institution.

The Bank of England was in fact a private corporation, and some aspects of its composition and work meant that it provided leadership for all the other private financial institutions of the City. Apart from the Governor and Deputy Governor, the most influential members of the Court of Directors and its Committee of Treasury – the 'Inner Cabinet of the Bank' – were usually partners or directors in merchant banks, acceptance houses and overseas banks, although the Court did also include shipowners and merchants, with a sprinkling later in the 1920s of industrialists, ex-civil servants and former Bank officials. Directors of British clearing banks were traditionally excluded from the Court, but in fulfilling the Bank of England's function as the 'bank of the bankers' and superintendent of the financial system generally, the Governor met at least once a week with representatives of the Committee of Clearing Bankers, as well as with those of the Discount Market Committee and the Stock Exchange Committee. Norman established regular contact with chairmen and other members of many individual banks and finance houses, and successfully encouraged the

practice by which 'any reputable person in the City [was] at liberty to see him'.¹⁷

However, Norman also placed the highest emphasis upon the Bank of England's public responsibilities. So on the one hand, the Bank sought to maintain a position of independence within the City and tried to discipline other financial institutions when their activities seemed undesirable from the standpoint of the country's financial welfare;¹⁸ on the other hand, the Bank adhered strongly to the doctrine that its functions also required it to have political independence. This doctrine was best stated by Norman's deputy, Harvey, to the Macmillan Committee in late 1929: because the Bank of England's main duty was

to conduct its operations in the interests of the community as a whole, . . . we . . . have always considered that it should be free from the control of particular groups and interests. . . . For the same reason I think I may claim that it is an accepted principle that . . . it should be free from being required to submit to political pressure and to subordinate sound finance to the dictates of political expediency.

The Bank necessarily had close relations with the Treasury, but according to Harvey these were 'fundamentally those of banker and client', and the Treasury did 'not seek to dictate any alternative line of financial policy if [the Bank] . . . consider a particular line of policy essential for the protection of the country's main reserves'.¹⁹ For Norman and the Bank such political freedom was, indeed, a general principle of central banking, as was shown in their international activities. Partly under British influence, the international economic conferences at Brussels in 1920 and Genoa in 1922 propounded this principle, while the Bank demanded its adoption when assisting in the monetary reconstruction of European countries, and when fostering central banks in the Dominions and in Latin America.²⁰ Where central banks were established abroad, Norman insisted upon dealing directly with them, not with foreign governments nor even through British government agencies;²¹ with his encouragement, the leading central banks therefore conducted their own financial diplomacy. Norman also took considerable pains to ensure that the Bank for International Settlements, established under the Young Plan in 1930 to deal with reparation payments and promote central bank co-operation, should be 'beyond the reach of Governments'.²²

In the domestic market political independence was regarded as extending to all aspects of monetary policy. The return to the gold standard restored to the Bank of England, and to the Governor in particular, control over bank rate, credit supply and – after monetary stabilisation had been completed by the 1928 Currency and Bank Notes Act – over note issue. This control was approved in principle by almost all other interested parties, even by Keynes and the 'business world',

despite their criticisms of the Bank's specific policies.²³ Hopkins, Controller of Finance at the Treasury, affirmed that 'the control of our currency is exclusively a matter for the Bank of England. It is not a matter in which the Government intervenes.'²⁴ Even most politicians upheld the principle of the Bank's independence from their control – largely, it seems, out of suspicion of each other's motives. So both Churchill, as Conservative Chancellor of the Exchequer from 1924 to 1929, and Snowden, his Labour successor from 1929 to 1931, asserted that their governments had no responsibility or influence in the determination of bank rate.²⁵ Officially the Labour party (and the TUC) were committed to the ultimate nationalisation of the Bank of England, but even so their leaders, above all Snowden, insisted that control should continue to be withheld from politicians, and should pass instead to a non-political public corporation.²⁶

As the corollary of its own freedom from political pressures, the Bank of England maintained the principle that it did not intervene in politics. Harvey told the Macmillan Committee that

we never venture to interfere on any question that can be considered a political question, unless we are asked to express an opinion as to what the financial effect of a certain political operation may be. If we are asked, we give our advice, but we never seek to interfere in politics.

Accordingly, Harvey declared, 'the colour of the Government of the moment ha[d] absolutely no influence whatever' on the nature of the Bank's relations with the Chancellor of the Exchequer.²⁷ In compliance with this principle of non-intervention, the Bank imposed a number of checks upon itself. In order not to embarrass the Treasury, the Bank would only have contacts with other government departments with its knowledge and approval. Norman asserted that there was an unwritten rule that Bank of England directors should not publicly express views on financial matters differing from those of the current Chancellor of the Exchequer. There was also a tradition that no Bank director should be an MP, except for the City of London, whose Members were expected to preserve more independence from their political parties than most other MPs.²⁸ The position of the Bank director City MP throughout the inter-war gold standard period was indeed unique – for Edward Grenfell, of the merchant bank Morgan, Grenfell & Co, was also a partner of the leading New York international bankers, J.P. Morgan & Co, the British government's financial agents in the United States. In this capacity Grenfell helped arrange American credits for the Government both when the gold standard was restored in 1925, and when it was being defended in 1931.²⁹ From several directions, therefore, Grenfell felt public responsibilities transcending his membership of the Conservative party. He particularly claimed that because of its

national services, the City as a whole occupied a special position, telling the House of Commons in February 1930 that 'the City . . . is not political in any sense', and that City MPs had always maintained that they were 'freer than any other Member to express [their] opinions on any subject and in favour of either side'.³⁰

Formally, then, there was a clear division between the concerns of the Bank of England and those of the government and politicians. As Norman told Snowden in September 1929: 'his was the technical and financial side – the Chancellor's was the political and fiscal side'.³¹

Of course, the real position was not so clear cut. Although the gold standard itself was not in question, there could be differences between the government and the Bank of England on subordinate monetary measures and other financial issues, resulting in encroachments by both sides. Even in central banking doctrine, the government's banker had an ultimate duty to the community to use every possible means to prevent its client from destroying its own credit – an obligation which would inevitably draw the central bank directly into political questions. For example, in the early 1920s Norman advised his counterpart at the Reichsbank to 'make a practice of objecting to any unwise economic measures or to any inflationary policy which your Government may wish to adopt. It matters not whether such policy may seem unavoidable or not.'³² The Bank of England itself had during its immediate post-war struggle to regain monetary control pressed the British government to cease borrowing, reduce expenditure, and balance the budget.³³ Even after sound finance and the formal division of responsibilities had been restored, however, the Bank and the government still continued in practice to exert influence in each other's fields, particularly as the conduct of government financial business required constant communication between them. In the Governor's at least twice-weekly visits to the Treasury, his 'fairly frequent' calls upon the Chancellor of the Exchequer, and his contacts with various other government departments, he naturally affected political decision-making even while simply reporting conditions in the City or advising on financial aspects of specific policies.³⁴ Conversely, such communications gave the Chancellor and Treasury officials opportunities to apply informal pressure upon the Bank – and despite their public statements both Churchill and Snowden did protest strongly in private against increases in bank rate.³⁵

To some degree, therefore, the formal distinction between banking and politics was a facade maintained by both sides in order to protect the Bank from dangerous demands for even more ministerial intervention, and ministers from public responsibility for unpleasant policies. Nevertheless, until 1929 this demarcation was on the whole observed, and apart from intermittent outbursts by Churchill about credit policy

no serious differences arose between the government and either the Bank of England or the City generally. One obvious reason for this was that the Government was Conservative, with policies broadly congenial to the City. Its financial policy was ultimately 'sound' – though some of Churchill's unconventional methods of obtaining a budget balance caused Norman to liken him to a juggler.³⁶ The Conservative party's abandonment of a general tariff policy in 1924, and the government's cautious use of the Safeguarding of Industries legislation, reduced the possibility of conflict with the City's traditional commitment to free trade. There was no friction when a European and American plea for 'economic freedom' was signed in October 1926 by Norman, Goodenough, chairman of Barclays Bank, McKenna, Beaumont Pease (chairman) and Bell (a director) of Lloyds Bank, Schuster of the National Provincial Bank, Currie of Glyn, Mills & Co, Bradbury (now a director of William Deacons Bank), Holland-Martin, secretary of the Bankers' Clearing House, and other leading British bankers, businessmen and industrialists.³⁷

A further reason for this relatively trouble-free relationship was the Bank of England's avoidance of increases in bank rate between December 1925 and February 1929, despite the fact that sterling was repeatedly under strain. Churchill's threats when bank rate was raised during 1925, and his occasional bitter complaints against what he considered to be the Bank's policy of 'deflation',³⁸ may have had some influence upon the Bank's decisions. However, Treasury officials supported the Bank, while Churchill – lacking the technical understanding to prevail against both of these – always backed down, and it seems doubtful that fear of his bluster would have made the Bank hesitate for long if it had considered increases in bank rate really appropriate. In the Bank's view, the strains upon sterling were caused not so much by domestic weaknesses requiring treatment by means of changes in bank rate, as by external pressures arising from the various post-war distortions of the international financial system – Norman complained about 'how greatly the international machine is out of gear'.³⁹ Believing these strains to be extraneous and temporary, the Bank considered that British industry and trade should be protected from their consequences, and so developed expedients to defend sterling without increasing bank rate.⁴⁰ Although the pound remained based upon a gold standard and the Bank still hoped to return to an 'automatic' system, sterling had in practice become, in Norman's words, 'a more or less managed Currency'.⁴¹

However, this management was not intended to insulate the domestic economy against 'real' forces of world competition in production, nor against permanent changes in the international financial system; after all, the gold standard was supposed to provide the framework for

proper adjustment to such conditions. After 1925 the Bank pursued what it regarded as a neutral internal monetary policy, maintaining a roughly stable volume of credit and whenever possible keeping bank rate at a level which in its view 'inflicted no hardship on trade'.⁴² So although Norman and others at the Bank later admitted that the return to gold had exacerbated the difficulties of industry, they did not accept that the monetary system was responsible for industrial depression and unemployment.⁴³ Rather, they believed that since 1918 British industry and trade had suffered from the 'brute facts' of post-war depression, the consequences of 'general currency chaos', and 'tremendous changes' in industrial technology. Compared to such disruptions, any deleterious effects of the return to gold were minor – and even these had been greatly aggravated by a series of subsequent 'mischances', particularly the undervaluations of the French and Belgian currencies. In the Bank's view, British industry would in any event have had to make considerable readjustments, and its main problem was that this process had become 'jammed', partly because of 'stickiness in respect of wages' but mostly because of a general failure to reduce costs, improve methods and switch to more profitable lines of production.⁴⁴ For these reasons, and also because the condition of industry ultimately affected the position of sterling, Norman became from 1928 an enthusiastic supporter of 'rationalisation' of the basic industries.

These views on the relationship between monetary policy and industry were shared by most other City bankers. McKenna, however, emphasised monetary factors as a cause of industrial depression and unemployment. In January 1926 he argued that an 'over-valuation' of sterling had 'seriously impaired our export trade', and although he thought this 'impediment' was 'fast disappearing', a year later he complained that the 'rigidity of the Bank of England system' was such that there was an insufficient supply of credit available to allow for any significant trade expansion. Accordingly, he called for an 'exhaustive inquiry' into the credit and currency system.⁴⁵ By 1928 these and similar criticisms by Keynes, by prominent businessmen, and by leaders of the TUC, were influencing opposition politicians whose interest in these issues was stimulated by the continuing high level of unemployment, and by the debates surrounding the Currency and Bank Notes Bill. Abandonment of the gold standard was not proposed, but both the report of the Liberal Industry Inquiry, *Britain's Industrial Future*, and the Labour party's *Labour and the Nation* advocated changes in the conduct of monetary policy and took up the call for a banking inquiry.⁴⁶ However, it was not until the following year that the Bank was subjected to such an inquiry.

Indeed, during 1929 the relationship between banking and politics began to change generally. There were three reasons for this: criticism

of increases in bank rate in February and September, the appointment of a Labour government in June, and the onset of the world depression from October.

The difficulties over bank rate arose because of the attraction of capital from Europe to New York by the Wall Street stock market boom, which threatened to force sterling off the gold standard. During late 1928 and early 1929 the Bank tried all its expedients for avoiding a curtailment of credit and rise in bank rate, but as the position still deteriorated it felt obliged on 7 February to resort to a rate increase of 1% to 5½%.⁴⁷ Churchill again protested to the Bank, and this time even raised the matter in Cabinet on the ground that the increase 'would have a chilling effect on trade revival'. In the event, it was emphasised in Cabinet that the Government had 'no responsibility for the movement of the Bank Rate and does not control the policy of the Bank of England', and Churchill followed suit in parliamentary statements;⁴⁸ but the Bank had been reminded again of the political sensitivity of bank rate increases, while criticism of credit policy among producer groups and opposition politicians inevitably increased. Bankers' explanations, such as that of Grenfell in Parliament, that the decision was 'no reflection upon British bankers' because it was 'forced on them' by 'gambling in America', had little influence.⁴⁹ In such circumstances, Government denials of responsibility which had previously strengthened the Bank, now had the potentially dangerous consequence of isolating it. The Bank of England therefore found itself in a difficult position in the early summer when increased pressures upon sterling were followed by the election of a Labour government.

Although credit policy was not an issue at the general election, the Labour party was pledged to hold an inquiry into the banking system, and the Bank of England felt that it had to be very careful if it were to avoid interference from the new Government, or agitation for early nationalisation. Although Norman and other bankers knew that the new Chancellor, Snowden, had 'always been quite sound on the gold standard'⁵⁰ and on financial policy generally – more so than Churchill – and that he could be relied upon to resist extreme demands against the Bank, Snowden had, on the other hand, spoken of 'reforming' monetary policy, he was more certain of his own judgement in financial matters than was Churchill, and if at all possible the Bank did not wish to embarrass him in his relations with its more threatening Labour critics.⁵¹ While Snowden proceeded slowly, gave private assurances to the Bank, and announced in Parliament in July that he had 'no intention of calling [the gold standard] in question', he nevertheless began preparations for an inquiry 'into possible improvements in our existing system of banking and credit'.⁵² Later that month, he also publicly told Bank directors and other leading City bankers that he hoped there

would be no further increase in bank rate – something Churchill had never done.⁵³

Political considerations were therefore the main reason why the Bank tried to avoid a rise in bank rate during July 1929 – and its position became still more difficult during August. Heavy gold losses and a rise in New York rates seemed to require an immediate increase in London rates, and in addition the political controversies and financial disturbances associated with the Hague Conference on reparations caused Norman and senior Bank directors to fear a crisis similar to that which was to arise in 1931. However, since an increase in bank rate during the conference would cause difficulties for Snowden, Norman again employed other expedients, and obtained American assistance.⁵⁴ On the other hand, the financial dangers of a breakdown in the conference due to Snowden's insistence on British claims seemed so great that in mid-August Norman felt compelled to intervene in what was strictly a government matter. He and Lamont, an American member of the Young Committee and a partner in J.P. Morgan & Co, interrupted MacDonald's holiday in Scotland in order to persuade him to caution Snowden.⁵⁵ Despite this warning, Snowden successfully maintained his stand, the Hague Conference reached a settlement, and the threat of a German crisis subsided. But the American pressures remained, and in early September Snowden again tried to dissuade Norman from raising bank rate, arguing that it 'would harm trade' and be 'bitterly criticised'. In the end, however, he yielded to the arguments of Norman,⁵⁶ who at last felt able to increase the rate to 6½% on 26 September.

Snowden was right about the criticism,⁵⁷ which was particularly embarrassing for him in a week preceding the Labour party conference; party calls for a banking inquiry could now 'hardly be resisted'.⁵⁸ Despite Norman's plea that 'the mere promise of such a Committee would of itself endanger our financial position', and might even threaten the maintenance of the gold standard, Snowden announced during his speech to the party conference on 3 October that one would indeed be appointed soon, though with Norman's warning in mind he also defended the bank rate increase and said that his own decision did 'not arise out of recent events', nor imply any 'reflection whatever upon British banking and financial institutions'.⁵⁹ As Snowden remained attentive to the Bank's interests, Norman's influence was shown in the appointment as members of the committee of Bradbury, a gold standard purist, Frater Taylor, one of the Bank's industrial advisers, and Lubbock, a member of its Committee of Treasury, who was especially vigilant as the Bank's watchdog on the inquiry committee.⁶⁰ Brand, a director of Lazard Bros & Co, agreed to serve because he felt it 'very important to British financial interests that the Committee's report should be sound as there are a great many anti-City elements in the

Labour Party'.⁶¹ However, Snowden naturally felt obliged to provide proper balance in the committee's membership, with results which worried even his Treasury secretary, who thought there was a 'danger of giving the impression that the Governor is being put on trial', since the committee was to include 'three of his bitterest critics (McKenna, Keynes and Bevin)' of whom, it was claimed, McKenna was 'known to have pursued an intense vendetta against him for years'.⁶² Certainly the appointment as chairman of a judge, H.P. Macmillan, who later admitted to being mystified by finance,⁶³ did nothing to prevent these three – especially Keynes – from dominating the committee's proceedings.

The change of government also affected the attitude of the Bank and the City generally towards industrial rationalisation. Among Norman's original reasons for assisting armaments, iron and steel, and cotton firms was a desire 'to keep the question away from politics', and for political and financial reasons the Conservative government had welcomed the Bank's involvement. Both were well aware that difficulties in key industries could excite Labour demands for nationalisation; so the Bank, assisted by some clearing banks and merchant bankers, promoted rationalisation as an alternative.⁶⁴ However, contrary to the Bank's fears, the Labour government actually welcomed its rationalisation work even more than did its Conservative predecessor, since the Labour government was more committed to relieving the unemployment problem, yet had to deal with the consequences of the world depression and was in a parliamentary minority; its senior ministers were in any case mostly sceptical about radical remedies and nationalisation. Snowden, particularly, told Norman in September 1929 that he 'entirely approved' the Bank's plans for a subsidiary rationalisation company (the Securities Management Trust), and 'would himself at all times support it'; for as he wrote six months later, he believed that by rationalisation British industry could 'in substantial measure recapture export trade'.⁶⁵

Thomas, the minister with special responsibility for employment policy, very early on sought the Bank's help in saving a major armaments firm from liquidation;⁶⁶ while in late 1929, with unemployment increasing, with his faith in public works programmes collapsing, and with political criticism and his own demoralisation growing, he appealed to Norman for more general assistance. In fact Norman already had under consideration a plan for linking all the major City banks in a new company to finance rationalisation, though he subsequently found it convenient to encourage ministers in the belief that they had taken the initiative; so he was happy to help Thomas reconstruct his policy, and recover his self-confidence.⁶⁷ In January 1930 Thomas read a statement prepared at the Bank announcing the City's

readiness to receive rationalisation proposals, and also established contact with the clearing bank chairmen.⁶⁸ The formation of the Bankers Industrial Development Company followed in April. However, this fairly close liaison between the City and the Labour government on general industrial policy declined after Thomas moved to the Dominions Office in June,⁶⁹ while rationalisation schemes proceeded slowly and encountered difficulties within individual industries. As a result, serious differences developed: Graham, President of the Board of Trade, proposed in January 1931 greater government involvement in cotton rationalisation, and in May a public utility company to take control of the iron and steel industry, both of which the Bank strongly opposed. On the second occasion, Norman threatened to stop the work of the SMT and BID Co, and claimed that an 'experiment' in socialism would alarm foreigners and endanger the country's already delicate financial position.⁷⁰

The other major development during 1929 was the onset of the world depression. The immediate effect of the Wall Street collapse in October was relief on the foreign exchanges, allowing reductions of bank rate to 5½% in November, and then by stages to 3% in May 1930. However, as one source of difference between banking and politics receded, others came forward. On the causes of the international collapse of prices, bankers themselves were divided. One very influential view was that advanced particularly by Strakosch, and endorsed by the League of Nations Gold Delegation: that the price collapse was chiefly a result of maldistribution of monetary gold, caused by its accumulation and 'sterilisation' by the USA and France; and that the remedy was international co-operation to stabilise prices by persuading those countries to increase their foreign lending, and by obtaining economy in the use of gold on the lines of the Genoa conference resolutions of 1922.⁷¹ Among those who shared this emphasis on monetary causes were Addis, Blackett and Stamp among Bank of England directors, McKenna and Leith-Ross, Deputy Controller of Finance at the Treasury.⁷² During 1930 the gold question was raised with increasing frequency by back-bench MPs of all three parties⁷³ and in December, with the issue now 'very much in the air', a group of Labour MPs formed a parliamentary 'Gold and Currency Group'.⁷⁴ Maldistribution of gold was also mentioned in speeches by Graham and Thomas, while MacDonald declared that the depression was due to 'a complete failure of the whole of the mechanism of exchange. Catastrophe has come upon us from finance'.⁷⁵ Ministers were also interested in ideas for stabilising the price of silver, which would improve British trade in the East; in March 1931 the Cabinet replied favourably to a Canadian-US proposal for a conference on silver, and MacDonald suggested that this should develop into an international conference on 'general monetary and financial

conditions'.⁷⁶ Furthermore, during July a movement for bimetallism began to emerge – proposing the remonetisation of silver to compensate for the shortage of monetary gold. Its chief advocates were Darling, a director of the Midland Bank, Hunsdon of Anthony Gibbs & Sons, the Liberal MP Lambert, and the Conservative politicians, Amery and Horne; it was supported by a group of seven other Conservative MPs, and it aroused the interest of, amongst others, Thomas, Beaverbrook, and Baldwin.⁷⁷

However, none of these developments amounted to rejections of the international gold standard – only to a desire to improve or supplement it. Moreover, most bankers, while agreeing that maldistribution of gold was harmful, did not regard it as the main cause of the price collapse. Brand, for example, thought that world overproduction of commodities was at least as important a cause, Goodenough and other clearing bank chairmen that it was more so – and in their view production could only be re-adjusted by market forces.⁷⁸ At the Bank of England, Norman and his advisers also attributed most of the blame to overproduction, and to misguided attempts to stabilise commodity prices by stockpiling.⁷⁹

Still, they did not deny that the gold question was important: in the early 1920s Norman had tried to convene a central bank conference to consider the Genoa resolutions, but various distractions had prevented this and he had soon discovered that other leading central banks were opposed to discussions about gold 'scarcity', which they regarded as 'essentially an English problem'. Although Norman was 'entirely contented' with the Gold Delegation's Interim Report, completed in June 1930, it provoked considerable hostility abroad, particularly in the USA and France; as both Keynes and Snowden observed, it was considered to be 'the result of a British intrigue'.⁸⁰ So it seemed that any Bank of England proposal for an international conference on the gold problem would fail, and would jeopardise existing central bank co-operation. Nor did it seem that a British government initiative would have any other result, and in any case the Bank was opposed to government involvement in such matters. For all these reasons, Norman and his advisers deprecated the view that the depression was largely due to monetary causes, and that monetary problems could be alleviated by any means other than discreet persuasion through the Bank for International Settlements. This attitude exasperated Leith-Ross, but he acquiesced and took the Bank's line because it was accepted by Snowden; therefore the official Treasury view towards gold questions was that Britain could not act alone, that further reports from the Gold Delegation were awaited, and that it was a matter for the central banks and the BIS.⁸¹ Since MacDonald and other ministers were also advised by such 'monetary cause' advocates as Stamp and

Keynes that owing to foreign hostility it was 'hopeless' to attempt international action, in the end they felt powerless to do anything.⁸² They were in any case hindered by ignorance of currency problems; as MacDonald told Norman in June 1931, 'it is a subject which I have never studied and therefore know nothing about'.⁸³ For similar reasons, the Bank's and Snowden's views prevailed on the silver question, which they regarded as a distraction from the main problem. In May MacDonald told the American ambassador that an international conference on silver would be a 'mistake'.⁸⁴

International monetary questions never developed into a major political issue. City bankers did however become actively involved in the great political controversy over trade policy during 1930. As the world depression resulted in increased 'economic nationalism' abroad, a sharp decline in British exports and intensified competition from foreign imports, the balance of payments position deteriorated and the industrial base for the City's financial strength came under serious threat. Consequently, a growing number of financiers reluctantly abandoned free trade, and began to support economic consolidation of the Empire and some form of protection. So, for example, Goodenough became treasurer of Amery's and Melchett's Empire Economic Union in December 1929, and by March 1930 McKenna was 'favourably disposed' towards Beaverbrook's Empire Free Trade campaign.⁸⁵ This shift in City opinion became generally known with the publication in July of a 'bankers' manifesto' declaring that the hopes of the 1926 plea for economic freedom had been frustrated, and calling for 'urgent measures for the promotion of inter-Imperial trade'. Among the signatories were McKenna and the other chairmen of the 'big five' clearing banks; Smith of Morgan, Grenfell & Co, May of the Prudential Insurance Co, and Snagge of the Atlas Assurance Co; Guinness of Standard Trust, the stockbroker Scott, and Jarvie, chairman of the United Dominions Trust; Granet and Wagg, directors of BID Co, and two Bank of England directors, Anderson and Whigham. Norman, however, made it clear that the manifesto did not originate in the Bank.⁸⁶ Privately, Beaverbrook claimed to have instigated it through McKenna and Whigham,⁸⁷ and it certainly had the political impact he would have intended, strengthening the arguments of 'whole-hog' tariff reformers within the Conservative party. Amery, for instance, wrote that the manifesto 'means that Free Trade is practically dead', and immediately used it to try and persuade Baldwin to replace the party's proposed referendum on food duties with a 'free hand' policy.⁸⁸ Grey, Runciman and other prominent Liberals organised a free-trade reply to the manifesto in September, but despite support from Addis, Bradbury, Bell and Currie, it carried a much less impressive list of City names.⁸⁹ And conversions to protection continued, including those of Grenfell,

Schuster, Holland-Martin, and Lewis of the National Provincial Bank and the government's Economic Advisory Council.⁹⁰ In January 1931 Norman himself was reported to have accepted that 'a tariff is inevitable'.⁹¹

These changes paralleled a transformation in prevailing industrial opinion, which the Federation of British Industries belatedly accepted in October 1930. Before then, Whigham and Jarvie had assisted Sir William Morris in establishing a 'National Council of Industry and Commerce', the aims of which included the adoption of protection and imperial preference; Guinness, Scott, Snagge and Holland-Martin were other members, along with a large number of industrialists.⁹² In fact by late 1930 many financiers – whether or not they were members of protectionist organisations – were part of a general movement in business opinion which underlaid the Conservative party's adoption of a full imperial trade policy, the beginnings of Simon's Liberal protectionist split, and indeed the conversion of MacDonald, Thomas and a minority of Labour Cabinet ministers to import controls. The Cabinet free trade majority was headed by Snowden; here, at least, the City was politically at odds with the Chancellor of the Exchequer.

However, the area of greatest potential difficulty between the City and the Labour government concerned industrial costs and budgetary policy. Whatever their other explanations of Britain's industrial troubles, all bankers – and industrialists – agreed that levels of wages, taxation and social service expenditure did not assist business confidence and international competitiveness. Taxation and social service expenditure seemed especially onerous because they were more within the control of politicians, yet no government had been able to resist their increase. Bankers had complained of an 'excessive burden of taxation' even while the Conservative government was in office;⁹³ but in late 1929, when the downturn in British exports and a prospective budget deficit seemed to demand financial restraint, the Labour government increased expenditure on pensions and unemployment insurance. In the annual clearing bank meetings in January 1930, several chairmen warned that the country 'could not afford' further extensions of social services, while an advisory group of businessmen-financiers organised by Thomas called for a 'new political note', including a 'holiday from social legislation'.⁹⁴ As the depression deepened and industrial costs became heavier to bear, as revenues declined and expenditure on unemployment insurance rose, bankers became still more critical. By October another large deficit was expected, yet in November borrowing for the Unemployment Insurance Fund was increased and a supplementary estimate for transitional benefit was needed. Bankers declared that taxation had become a 'crushing burden', and there were now complaints about the maintenance of

'arbitrarily' high living standards.⁹⁵ According to Holland-Martin, an 'un-thought-out wish to build Jerusalem . . . and to make a land fit for heroes' had produced 'a standard of wages, pensions and unemployment pay totally above' the country's 'real means'.⁹⁶ It was widely argued by bankers and industrialists that industrial recovery was dependent upon action being taken against 'rigidity of wages', and especially against unemployment insurance 'abuses' and all other 'unproductive' public expenditure. A second objective of the National Council of Industry and Commerce was to insist upon government economy and 'a drastic reduction of taxation', while in October Schuster thought the financial position so serious that he suggested it might need to be dealt with by the formation of a non-party, 'National' government. Brand feared that in the absence of international action to raise prices, 'there is really no alternative . . . to a direct attack on costs', and that if not done voluntarily 'then ultimately economic forces will . . . bring it about, possibly as a result of a really serious economic and financial crisis'.⁹⁷

This possibility seemed all the more threatening because during 1930 sterling had come under renewed pressure. Large French withdrawals of gold from the Bank of England began in mid-May. The Bank and the Treasury still attributed such losses to external causes, particularly to what they regarded as 'defects' in the French monetary system,⁹⁸ but some financiers were already beginning to attribute the exchange weaknesses to domestic conditions. Lamont told MacDonald that government policy was 'sending shiploads of British savings to the United States'; shortly afterwards his partner, Grenfell, gave a similar warning to the House of Commons, and Stewart, an American economic adviser to Norman, told the Macmillan Committee in July that one reason for Britain's gold shortage was the uncompetitiveness of its export industries.⁹⁹ The losses were halted, artificially, in early June by the Bank's inability to provide further 'fine' gold bars as demanded by the Bank of France, and for several months the Bank of England actually increased its gold reserves.¹⁰⁰ However, sterling remained weak on the major foreign exchanges, while Sprague, Stewart's successor as American adviser, told Norman in October that 'nothing very useful could be done' about Britain's monetary position 'until there had been a general deflation of wages and balancing of the budget'.¹⁰¹ In early November, the exchanges fell to a point where it became profitable to refine the Bank's 'standard' gold bars into 'fine' gold for export to France, and the Bank's gold losses resumed, at a rate of £300,000 worth a day.¹⁰² Norman obtained exchange support from the Federal Reserve Bank of New York and the Bank of France, but both of these now thought that the weakness was partly due to doubts about sterling itself. The Americans were accordingly prepared to give only limited assistance, a

decision which Sprague favoured because he thought that otherwise such support 'would foster the willingness of England to take her difficulties sitting down, instead of standing against them'.¹⁰³ At the Treasury, Leith-Ross continued to attribute the gold losses largely to conditions in Paris, and Snowden was persuaded to authorise discussions with French Treasury officials in January 1931 to try and alleviate the problems. Norman, however, was cool towards these talks, as he was in late 1930 towards Bank of France offers of a loan to ease the Bank of England's difficulties.¹⁰⁴ In both cases, part of the reason seems to have been that now he too believed that there were domestic causes of the pound's weakness, and that action should be taken at home.

In early 1931 there was a combination of sterling and budgetary problems which in many respects foreshadowed the crisis of August. Gold losses continued, sterling fell even in the forward exchange markets, and there were clear signs of foreign loss of confidence in the pound. Snowden and the Treasury gave both Cabinet and public warnings that the prospective budget deficit and borrowing for unemployment insurance were jeopardising British financial stability, and the Cabinet discussed proposals for balancing the budget and cutting the rates of unemployment insurance, but were unable to reach agreement.¹⁰⁵ The City as a whole was alarmed. In their annual speeches in January, all the clearing bank chairmen except McKenna called for 'drastic' government economy measures. On the 27th Grenfell chaired the inaugural meeting of the 'Friends of Economy', a so-called 'non-political' organisation comprising financiers, industrialists and leading Liberal and Conservative politicians, and seeking the cessation of all government expenditure which was not 'absolutely necessary'; the meeting was addressed by Grey and Horne, and the platform party included Brand, Goodenough, Beaumont Pease, Schuster, and the Bank of England directors, Addis, Kindersley, Kitson and Peacock.¹⁰⁶ As foreign opinions of sterling became known in London, the money markets became extremely nervous. For example, on 5 February rumours that the Cabinet was about to adopt Lloyd George's plans for a large development loan produced a sharp fall in government funds, and Snowden had to deny the rumour in the House of Commons. There was even 'more or less open talk' that sterling might be forced off the gold standard, though no responsible person in the City proposed this course – even McKenna wrote that 'those who advocated a devaluation before we returned to the Gold Standard . . . are no longer in favour of such action now that we have in fact returned'.¹⁰⁷ Confidence was further weakened by doubts about the willingness of politicians to face the prospect of unpopular measures. As Brand wrote:

I am beginning to regard the situation as a dangerous one . . . and it doesn't

seem to me that our political leaders have any idea of it. This is the reason why I . . . am all for economy. . . . The trouble is that democracies seem unable constitutionally to make Budgets balance. . . . In one country after another drastic economies can only be made by suspending the constitution, and I am not at all sure that our time is not coming.¹⁰⁸

All of these fears were shared within the Bank of England. Sprague spoke of the need for 'radical remedies' to the Treasury in January and, with Norman in attendance, to the Macmillan Committee in February. He too stressed the political difficulties, telling the committee that 'it is a very real question whether the necessary readjustment will take place in this country under the democratic conditions that obtain', though he did propose a 'national treaty' to couple cuts in wages and salaries with increased taxation of rentiers.¹⁰⁹ When a deputation of Manchester businessmen suggested to Norman and his advisers in February that the Bank could ease the economic position by expanding the note issue, they were instead sent away with the idea of a campaign to 'Face the Economic Truths and act accordingly'. Clay, another of the Bank's advisers, agreed with one of these businessmen that unless something were done to correct the disequilibrium between prices and wages, the country 'might well be in a ruinous position' within six months. He suggested that the King be persuaded 'to announce that in view of the grave national emergency' he would ask Parliament for a 10% reduction in the Civil List, which might embarrass Cabinet ministers into taking a similar cut in salary and so stimulate a 'general patriotic movement' of voluntary reductions in income; in March he proposed another programme similar to that of Sprague.¹¹⁰ Norman's own views probably did not go as far as those of his advisers; nevertheless he told Treasury officials in February that 'the main troubles of this country were due to the defects of our financial policy during the past few years and the consequent lack of confidence in British Government securities and in sterling'.¹¹¹

Norman discussed the threat of a flight from sterling with Snowden certainly in mid-January,¹¹² and probably on other occasions. His influence may be detected in the references to the exchange position in the warnings of Snowden and the Treasury. However, these warnings arose largely from an independent belief in the necessity for balanced budgets – as indeed did the alarm among opposition politicians. Any advice given by Norman about monetary conditions merely confirmed and reinforced Snowden's views; so, when Granet showed him a letter from an American banker expressing doubts about sterling, Norman seized upon it as 'exactly the ammunition I want for the Chancellor'. Snowden himself welcomed the agitation from the City and elsewhere for expenditure cuts, and endorsed the view that drastic measures were needed when he accepted the Liberal motion for a Committee on

National Expenditure on 11 February.¹¹³ However, the appointment of the May Committee postponed political discussion of emergency budgetary action for the time being, while monetary pressures were reduced by the eventual success of market operations begun by the Bank of England in late January, which halted the gold drain during February.¹¹⁴

The pound nevertheless remained weak; in early March Norman was afraid Britain might 'slide off' the gold standard.¹¹⁵ With confidence in sterling at risk, the Bank was particularly worried about the character of the forthcoming report of the Macmillan Committee. The Committee of Treasury discussed the drafting of the report with Lubbock, so that he might be better equipped to persuade his co-drafters of the 'undesirability' of some of Keynes's proposals – apparently those on the 'objectives of monetary policy' which Lubbock himself thought so half-hearted about the gold standard that he feared they might precipitate a flight from sterling if included in the report.¹¹⁶ To the Bank and the City generally, however, the maintenance of the gold standard seemed to depend most upon government policy; as Norman said, 'the future here depends more on politics than on finance'.¹¹⁷ The arguments for radical remedies therefore continued to be stated,¹¹⁸ and Norman himself sought to educate political opinion by agreeing to be cross-examined on three occasions by the Labour parliamentary 'Currency Group'. Each time he was accompanied by Sprague, who again talked of the need for deflation and thereby added to his reputation as Norman's *eminence grise*.¹¹⁹ Although Sprague was always careful to say that he was expressing his own views, Norman did not altogether repudiate them when MacDonald complained that Sprague's statements were being interpreted as those of the Bank.¹²⁰

So well before the financial and political crisis of August and September 1931, it was believed at the Bank of England and elsewhere in the City that the responsibility for the weakness of sterling lay in British levels of income and especially in the government's financial policy – and that since it was unthinkable that the gold standard should be abandoned, it was highly desirable that these should be adjusted. The causes and stages of the crisis are familiar: the effects of the central European bank collapses, and of the publication of the Macmillan and May Committee reports; the gold losses, the increases in bank rate, and the American and French central bank credits to the Bank of England; the subsequent flight from sterling and the Bank's appeal to Labour ministers; the ministerial deliberations on expenditure cuts, and discussions with opposition leaders and the General Council of the TUC; the efforts to obtain American and French credits for the government; the Labour Cabinet split on 23 August, and the formation of an all-party National government on the following day; the new Govern-

ment's success in obtaining foreign credits, and its economy measures; the attacks of the Labour opposition, the Invergordon naval mutiny, the renewed flight from sterling, and the eventual abandonment of the gold standard on 20 September.

During the first part of this crisis, the growing involvement of bankers in political questions during the previous two years reached its culmination, as the Bank of England, supported by other representative City bankers, attempted to fulfil its duty under the gold standard of ensuring that the Government took steps to preserve the nation's credit.¹²¹ In late July Harvey – substituting for Norman, who was ill – told MacDonald and Snowden that the central bank credits would provide only temporary relief while the government formulated its budgetary plans, and a joint committee of the British Bankers' Association and the Accepting Houses Committee warned them of a serious decline in foreign confidence in sterling and urged immediate action to cut expenditure, balance the budget, and improve the trade balance. When a clear flight from sterling developed in early August, the joint committee's letter was also signed by the chairmen of the chief clearing banks – including even McKenna, for whom the crisis of confidence had swept aside earlier doubts about the desirability of drastic budgetary measures.¹²² The Bank was now prepared to lose gold 'in order to make the British government understand the seriousness of their position', and Harvey advised Snowden that only immediate government decisions on the budget problem could restore confidence.¹²³ Consequently MacDonald broke his Scottish holiday and returned to London, where it was impressed upon him and Snowden by Harvey and Peacock that the solution lay 'in the hands of the Government alone'.¹²⁴ Bank directors nevertheless maintained their pressure upon the ministers. This was the effect, at least, of Harvey and Peacock keeping them informed of the Bank's technical position and later of its communications with New York bankers, and it was certainly part of their intention in bringing the leaders of the opposition parties into the discussions. Harvey and Peacock, being 'still in serious doubt as to whether any action would be taken' by the Government, asked for ministerial permission to put 'the facts' before the Conservative and Liberal leaders;¹²⁵ only subsequently did MacDonald and Snowden themselves arrange consultations with them. Harvey, Peacock and Grenfell between them informed the Conservatives, Baldwin, Chamberlain and Hoare, of the gravity of the exchange position; Harvey, Kindersley, Peacock and Stamp impressed the same upon Samuel, the acting Liberal leader, while his colleague Maclean was briefed by three Bank directors, one of whom was the former Liberal MP, Shaw. During the last days of the Labour government, Harvey and Peacock talked with Chamberlain and Hoare almost as often as they

did with MacDonald and Snowden, and Shaw was frequently in touch with Samuel and Maclean. Bank directors also explained the situation to other influential people: Dawson, editor of *The Times*, was seen by Kindersley and later by Peacock, who as the King's private financial adviser was also in direct communication with the Palace.

Clearly, Bank of England directors were very busy making their views known to those who mattered and, indeed, deliberately precipitated government action on the budget. Their attitude was bluntly stated by Norman, before he left to convalesce abroad in mid-August: the country would pull through 'if we can get them (the Government) frightened enough'.¹²⁶ However, this pressure was not interpreted as dictation by the politicians involved, in so far as none of them – not even the eventual dissentient Labour ministers – rejected the bankers' analysis of the exchange position, or doubted that the gold standard should be defended; nor did they question the need for a balanced budget. The subsequent controversy about 'bankers' dictation' concerned rather the manner of balancing the budget, specifically the issue of cuts in the rate of unemployment insurance payments. Over the role of the Bank directors and New York bankers in this matter there was some genuine misunderstanding, as well as wilful distortion by resigning Labour ministers. While the bankers recommended in the strongest terms that the budget should be balanced, on the means of doing so they observed at least the principle of political non-intervention, and did not attempt to impose specific measures. Harvey, true to his evidence before the Macmillan Committee, wrote in his original warning letter to Snowden that he was 'most anxious not to step beyond [his] province'. In the first meetings with ministers and opposition leaders Peacock did offer some suggestions about taxation and economies – apparently without direct reference to unemployment insurance¹²⁷ – but these were plainly regarded as personal comments, not as instructions from the Bank. In fact, as Bank directors knew, they did not need to insist upon particular economies, owing to the background of discussion about expenditure cuts culminating in the May report proposals for considerable savings on unemployment insurance. The real pressure for cuts in unemployment benefits during August originated from Snowden and MacDonald within the Cabinet, from the Treasury, and especially from the opposition leaders. The Bank directors' role was essentially as Harvey had described to the Macmillan Committee – advising on the financial effects of particular political operations, though with the difference that they were now advising opposition leaders as well as ministers. Their advice was, of course, that the cuts proposed by Snowden, MacDonald and the opposition leaders would have a most beneficial effect upon financial confidence: when these views were reiterated in emphatic terms by two ministers desperately striving for Cabinet agreement, it

could indeed have been seen as an attempt at dictation. As for Governor Harrison and the Morgan partners in New York, their initial advice on the feasibility of a government loan simply reinforced that already given by the Bank of England about the need for a balanced budget. Later, when MacDonald asked for their opinion on his own budget scheme, which included a cut in unemployment payments, they did not feel competent to judge its adequacy, and yet were embarrassed by the knowledge that an unhelpful answer might cause the government to resign. So they tried to compromise, by expressing willingness to help but also asking if the proposed scheme would be supported by the Bank and the City generally.¹²⁸ The notorious cable which supposedly caused the Labour Cabinet to resign on 23 August was therefore a reply to proposals made by the Prime Minister, and the crucial sentence was a statement not of conditions but of enquiry – in other words, there was no attempt in New York to dictate specific economies. MacDonald's scheme was in fact acceptable to the Bank and to other leading City bankers,¹²⁹ but not to a minority of ministers who had already resolved to reject the cut in unemployment payments whatever the reply from New York, and their opposition was sufficient to bring down the government.

The involvement of Bank directors in politics did not cease with the end of the Labour government; indeed for a time they had even greater influence, since their advice was vital for a National government formed specifically to overcome the sterling crisis. A sudden acceleration of the flight from the pound on 24 August, caused by *The Times* revealing that the earlier bank credits were nearly exhausted,¹³⁰ meant that MacDonald, Snowden and their new Conservative and Liberal colleagues spent a few days under considerable pressure from Harvey and Peacock to issue definite statements of the government's composition and intentions, and to hasten the negotiations for government credits with French and American bankers.¹³¹ Declarations of the new Government's determination to balance the budget and cut expenditure, followed by the announcement of the credits on 29 August, restored some financial confidence and abated withdrawals of capital from London. But the exchange position remained delicate and, consequently, Bank directors found themselves asked to arbitrate in ministerial discussions. When Chamberlain, Samuel and Lothian, the Liberal under-secretary for India, approached them on the 27th with the latter's scheme for a capital levy – intended to ensure that the budget did not appear to discriminate against the working class – Harvey and other directors were 'much attracted by the political advantages' but deprecated the plan because they feared it would 'immediately induce a flight from the pound and also be taken by the [Socialists] as a precedent to be repeated'.¹³² In mid-September, when the drain of

funds had resumed despite the announcement of the budget and the economy bill, Harvey also warned of the dangers to confidence in arguing against a prohibition on British capital exports proposed by Reading, the Liberal Foreign Secretary, but opposed by Snowden and the Treasury.¹³³ By then, however, the chief question on which their advice was sought was the actual future of the Government.

The Bank directors' views on this issue were considered important because the attitude of the Labour opposition and their TUC allies, together with fears that they might win an early general election, were thought to be affecting confidence in sterling. Peacock saw Citrine, the TUC general secretary, on 24 August in an effort to convince him of the seriousness of the exchange position, and of the Bank's innocence of any attempt to influence the Labour Cabinet's policy.¹³⁴ Despite this, the TUC General Council joined Labour ex-ministers in accusations that the previous cabinet had been destroyed by a 'bankers' ramp', and in violent attacks upon the National government and its proposed cuts in social services and public employees' wages – even those reductions that the former ministers had earlier been prepared to accept. Although there was no explicit opposition to the gold standard, these declarations were still disturbing to foreign financial opinion since Labour remained the largest single parliamentary party, the new ministers had expressly formed an emergency government for only a short period, and there was considerable doubt about how the electorate would react to the expenditure cuts. The pressure for a general election arose chiefly because many Conservatives wanted a mandate to introduce tariffs; opinions differed over whether the party should fight independently, or in alliance with other groups. Liberal ministers were opposed to tariffs and wished the National government to continue without an election, while MacDonald wanted tariffs but was torn over the election question. As the deteriorating balance of trade was now contributing to the weakness of sterling, most Bank directors as well as other City financiers wanted urgent consideration of tariffs – and Peacock informed senior ministers of this in mid-September. But all Bank directors – their own views reinforced by opinions from New York – believed that just the talk of a general election was weakening confidence, while actually to hold an election on the old three-party lines would have a disastrous effect, and even one fought by a National government alliance would inflict considerable damage. They wanted the National government to stay in office and deal with the trade balance without bothering about its mandate. These views, elicited from Harvey and Peacock at Cabinet and Cabinet Committee meetings, and pressed by more directors upon Conservative ministers and back-benchers on other occasions, were a major consideration in all political discussions about an election.¹³⁵

However, during this second part of the crisis, from the end of

August, the influence of the Bank of England in fact began to decline. One reason for this was that as the second American and French credits were specifically for the government, the Cabinet and the Treasury had a direct responsibility within the Bank's special field. Another was that with the maintenance of the gold standard now a central political problem and with reputations at stake, ministers could not afford to leave exchange questions as matters to be discussed solely at the Bank. The very fact that Harvey and Peacock were summoned before a Cabinet meeting and sessions of the Cabinet Financial Situation Committee, was a significant change. Although ministers were primarily seeking advice, the directors were nevertheless being required to explain the Bank's calculations; while some ministers and Treasury officials were rapidly developing their own views on the Bank's concerns, and offering suggestions. Moreover, Conservatives were so determined to have a tariff election that they refused to be intimidated by the Bank's advice. They did not repudiate the gold standard, but argued that only if the political uncertainty was ended by an election would the weakness of sterling be overcome.¹³⁶ In mid-September even the Bank's warnings that the remaining government credits could not last through an election did not deter them, and the directors had to reconcile themselves to the inevitable Cabinet decision. Before it was taken, however, the effects of the Invergordon incident were felt, and the pressure upon sterling seemed irresistible.

In this final crisis of the gold standard, the Bank of England exercised its traditional independence for the last time. On 18 September, it decided that the position was hopeless, and allowed the exchange rate to fall and gold to stream out of the Bank: only subsequently were MacDonald and other ministers informed,¹³⁷ even though this decision vitally affected their government. Bank directors had earlier been urged by senior ministers to seek further assistance from New York and Paris, but they now deprecated offers of help and advice from these quarters.¹³⁸ However, the National government met the embarrassment of going off gold mid-way through the passage of its economy measures by claiming that a balanced budget would prevent even worse disasters; it thereby survived the ordeal and went on to win the general election. For the Bank of England, the abandonment of the gold standard was the end of its exclusive authority in monetary policy. The decisions on whether to return to gold, or how to manage the sterling exchange if this were not done, were now a matter for the Government, and Treasury officials were soon busily discussing these issues.¹³⁹ As there was, in fact, to be no return to the gold standard, the establishment of the Exchange Equalisation Account and the introduction of cheap money in 1932 marked the beginning of a new partnership between the Bank of England and the public authorities – though nationalisation was not to come for another fourteen years.